Wellington Shields

EQUITIES PERSPECTIVE

April 11, 2025
DJIA: 39,593

We have seen one part of what makes a low…and now maybe the other. Lows are made by sellers, not buyers. Get the sellers out of the way and it doesn't take tremendous buying to lift prices. Last Friday we saw enough selling to say washout. Volume is one measure; it was 90% on the downside. Advance/Declines are another measure, they were 10-to-1 down. The problem is that at lows we sometimes see multiple such days. The proof of a washout is in what follows. If the sellers indeed are accommodated, stocks should move up with relative ease. After a 10-to-1 down day Advance/Declines should follow with at least a 5-to1 up day, not necessarily on consecutive days. That's the second part of making a low, something we may have seen on Wednesday.

The VIX also seems important here for a couple of reasons. Everyone knows the VIX as the fear index, a measure of panic and a contrary indicator. When there's panic, there's selling – the important ingredient for a low. While a spike in the VIX is therefore important, history here isn't helpful – spikes can vary greatly. What is important is a reversal of the spike. You don't want to be buying into a panic, you want to be buying when the panic seems over. Following the VIX's recent intraday move into the 60s, Wednesday's close was back to the mid-30s seems positive. This idea of a panic that now is over adds to the rally's credibility, particularly if it the VIX continues to fall.

At a low, whether now or later, the issue becomes what to buy. At the low in 1974, when asked, the technical analyst Edson Gould quipped "buy every third stock on the New York Stock Exchange" – meaning everything would rally. When the selling is out of the way, that's the way it works. To add to that, at the lows those stocks down the most turn to up the most – what we call the rubber-band effect. Typically, this would mean the high beta techs, but the weakness has been such that you could include stocks thought to be stable, names like GE (181.49), McDonald's (MCD – 306.81), IBM (229.32), insurance and others. Overall, these are not down like tech is down, their weakness has come about only recently. These stable names usually come back to lead in the recovery.

When it comes to turns like this, follow-through is always important. As we have said before, the good rallies don't look back and the good rallies don't give you a good chance to get in. Keeping that in mind should be helpful in the days ahead. Certainly Wednesday had that look but obviously it was just one day. And not to rain on the parade, some of the best one-day rallies happen in bear markets. Meanwhile, considerable damage has been done, technically and fundamentally, that will take time to resolve. Trade negotiations usually take a couple of years, the stock market not that long. Still, the market recovery after Lehman didn't last, and the history of the Brexit mistake is even worse. We have seen the rubber-band effect, so to speak, time to see what comes next.

If this is a viable turn, it wouldn't be without its symmetry. Well before tariffs turned to the problem they have become, we pointed out there was considerable technical deterioration – stocks above their 200-day moving averages had dropped from 70% to 40%, while the large-cap averages were continuing higher. This kind of divergent action invariably leads to problems. When the market did take its downward direction, we suggested tariffs were more the excuse than the cause of the weakness. Now we have come full circle. By virtually any technical measure the market has looked ready for a rally. The good news Wednesday of a pause, which most believe is more than that, is again an excuse or catalyst for a market that was ready to rally.

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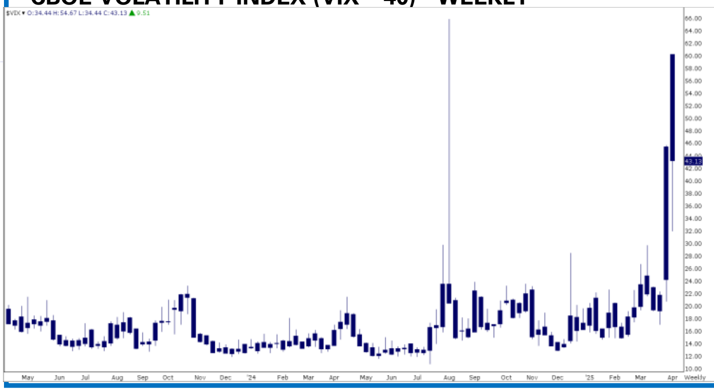
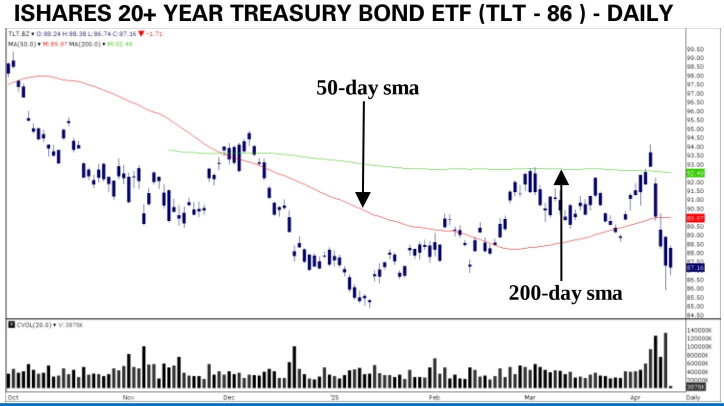
S&P 500 (SPX – 5268) – DAILY

NASDAQ 100 (NDX – 18343) – DAILY

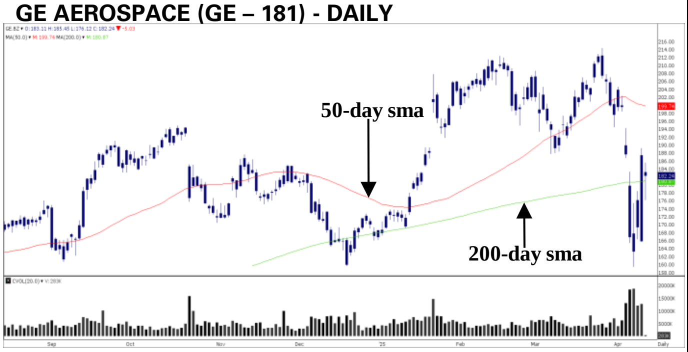
CBOE VOLATILITY INDEX (VIX – 40) - WEEKLY



ISHARES 20+ YEAR TREASURY BOND ETF (TLT - 86) - DAILY

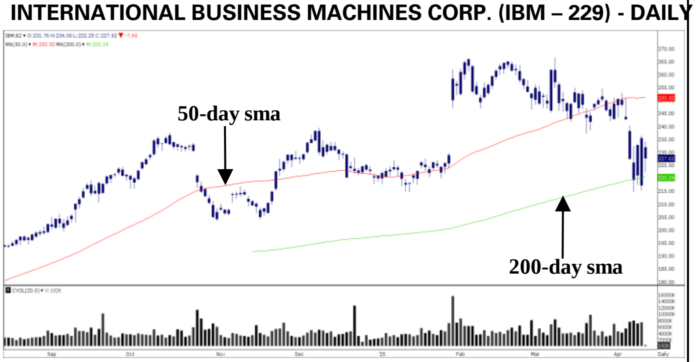


GE AEROSPACE (GE – 181) - DAILY



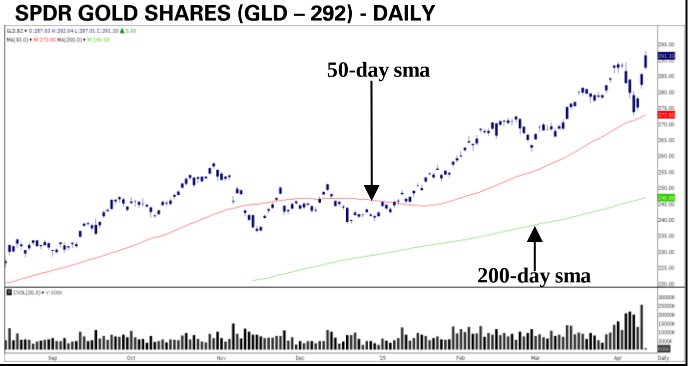
MCDONALD'S CORPORATION (MCD – 307) - DAILY

INTERNATIONAL BUSINESS MACHINES CORP. (IBM – 229) - DAILY



ISHARES U.S. INSURANCE ETF (IAK – 128) - DAILY

SPDR GOLD SHARES (GLD – 292) - DAILY



ISHARES BITCOIN TRUST ETF (IBIT – 45) - DAILY